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ACTION AF-00

INFO	LOG-00	NP-00	AID-00	AMAD-00	CEA-01	CIAE-00	CTME-00
	DODE-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00	VC-00
	FRB-00	H-01	TEDE-00	INR-00	IO-00	ITC-01	LAB-01
	L-00	VCE-00	AC-01	NSAE-00	NSCE-00	OIC-02	OMB-01
	OPIC-01	PA-00	PM-00	PRS-00	ACE-00	P-00	SP-00
	SSO-00	STR-00	USIE-00	FMP-00	PMB-00	DSCC-00	DRL-02
	G-00	NFAT-00	SAS-00	/012W			

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FM AMEMBASSY HARARE
TO SECSTATE WASHDC PRIORITY 6989
INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
USDOC WASHDC
DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 HARARE 004883

SIPDIS

STATE FOR AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC
TREASURY FOR ED BARBER, GRACE SONE AND HOFFMAN BARAK
USDOC FOR 4510 ERIC HENDERSON
STATE PASS USTR/RWHITTAKER
STATE PASS NSC FOR SENIOR AFRICA DIRECTOR GAYLE SMITH

E.O. 12958: DECL: 08/31/07

TAGS: [EFIN](#) [PGOV](#) [ZI](#)

SUBJECT: IMF BRIEFS US AT START OF ZIMBABWE VISIT TO
CONDUCT AN ARTICLE IV REVIEW

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CLASSIFIED BY ECON/COMM OFFICER MARK PROKOP, REASON
1.5 (B), (D)

REFS: A) HARARE 2927, B) HARARE 2684, C) HARARE 2081,
D) HARARE 4084

1. (C) SUMMARY: ON AUGUST 29 THE IMF RESREP, ROBERT FRANCO, AND THE VISITING IMF ARTICLE IV REVIEW TEAM LEADER, PAULO NEUHAUS, MET WITH THE AMBASSADOR, USAID DIRECTOR, AND ECON AND POLOFF TO DISCUSS ECONOMIC AND POLITICAL CONDITIONS IN ZIMBABWE, POST ELECTION POLICIES AND LEADERSHIP, AND SHARE INFORMATION AND INSIGHTS. NEUHAUS' PRELIMINARY ASSESSMENT OF CONDITIONS IN ZIMBABWE, AT LEAST FROM A POLICY AND PLANNING STANDPOINT IS, IN HIS OWN WORDS, "DISMAL; THERE ARE NO HARD PLANS OR DETAILS ON HOW TO DEAL WITH THE MANY CRISES FACING THE COUNTRY." HAVING ONLY ARRIVED ON SUNDAY, AUGUST 27, THE TEAM LEADER HAD SO FAR JUST MET WITH THE MINISTER OF FINANCE, SIMBBA MAKONI, AND THE RESERVE BANK GOVERNOR, LEONARD TSUMBA. NEUHAUS SOUGHT OUR FEEDBACK, WHICH WE

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PROVIDED HIM, ON KEY ISSUES SUCH AS THE ABILITY AND FREEDOM OF THE TECHNOCRATS TO FUNCTION, ON THE AREAS AND PROSPECTS OF GOZ SPENDING CUTS, AND WHERE LAND REFORM WAS HEADED. END SUMMARY.

DETAILS AND PLANS ARE LACKING

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2. (C) SOMEWHAT FRUSTRATED, NEUHAUS TOLD US THAT THE ANSWERS HE HAD RECEIVED FROM BOTH THE FINANCE MINISTER AND THE CENTRAL BANK GOVERNOR WERE DISAPPOINTING AND INADEQUATE. "I SEE NO HARD PLANS FROM EITHER OF THEM OF HOW A HOST OF PROBLEMS ARE TO BE SOLVED OR THINGS TURNED AROUND," HE STATED. "THE FINANCE MINISTER CANNOT TELL US WHAT THE FISCAL DEFICIT FOR THE YEAR IS GOING TO BE OR HOW IT WILL BE FINANCED. ON HOW MUCH PRIVATIZATION CAN EARN AND WHEN, I ALSO GOT NO ANSWERS. THE GUIDELINES FOR THE 2001 BUDGET, WHICH IS IN PREPARATION NOW, ARE ALSO VERY VAGUE," HE CONTINUED, "AND THIS IS DISTURBING." WHEN I ASKED WHY THE DEVALUATION STOPPED AT 50, THE ONLY ANSWER I GOT WAS THAT IT WAS AN ACCEPTABLE "PSYCHOLOGICAL" LEVEL. IN ANSWER TO THE AMBASSADOR'S QUERY ON THE EXCHANGE RATE, NEUHAUS REPLIED THE RATE SHOULD HAVE BEEN ALLOWED TO SLIDE TO 65 OR 70, AS ONLY THEN COULD AN EQUILIBRIUM BE TESTED.

3. (C) COMMENTING ON THE RESERVE BANK (RBZ), NEUHAUS

SAID THAT IT IS "CLEARLY, TOTALLY SPACED OUT, AND ANY LIMITS ON MONETARY GROWTH HAVE CLEARLY BEEN SUSPENDED. THEY COULD ONLY TELL ME THAT THEY WILL STOP LENDING TO THE GOVERNMENT WHEN THEY HIT THE STAUTORY LIMITS." "WHERE IS THAT LIMIT?" HE QUERIED OUT LOUD, CLEARLY DISAPPOINTED WITH THE SUSPENSION OF DISCIPLINE AT THE CENTRAL BANK. BROAD MONEY SUPPLY GROWTH WAS SURGING AT 70 PERCENT AS OF MID-AUGUST, HE AND THE RESREP OBSERVED, AND THE INFLATION CONSEQUENCES WILL BE TERRIBLE. THE IMF TEAM LEADER TOLD US THAT ZIMBABWE CURRENTLY HAD NO PLANS TO

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APPROACH THE PARIS CLUB FOR DEBT NEGOTIATIONS, AND THEY COULD PROVIDE HIM NO PLAN FOR HOW THE COUNTRY'S BALANCE OF PAYMENTS GAP COULD BE MET. THE ABILITY OF THE RBZ TO MANUEVER OR STICK TO ITS COMMITMENTS, HE STATED, IS CLEARLY VERY LIMITED. HE ADDED THAT THE MEETINGS HIS TEAM HAD SCHEDULED AT BOTH THE RBZ ABND THE FINANCE MINSTRY ON AUGUST 24 AND 25 WERE CANCELED WITH NO EXPLANATION, AND THEREFORE THE REVIEW OF THE NUMBERS WAS SLOW IN STARTING.

THE MILLENIUM ECONOMIC RECOVERY PLAN (MERP)

14. (C) NEUHAUS RESERVED HIS MOST STINGING CRITICISM FOR THE GOZ'S TURNAROUND PLAN, DUBBED THE MERP. "WHY MAKONI EVER ADOPTED THIS THING I DON'T KNOW," HE TOLD US. "IF THIS IS THE PATH FORWARD," HE CONTINUED, "MAYBE THE AUTHOR SHOULD HAVE BEEN APPOINTED FINANCE MINISTER." (COMMENT: THE PRINCIPAL AUTHOR IS THE FORMER HEAD OF THE ECONOMIC PLANNING COMMISSION, WITH MANY OF THE RECOMMENDATIONS DRAWN FROM MALAYSIA AND THAT COUNTRY'S EXPERIENCE.) "THE MERP IS ALL FLUFF AND NO SUBSTANCE," NEUHAUS CHIDED, "AND THE FEW ACTUAL RECOMMENDATIONS IT CONTAINS ARE DRAWN FROM THE

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P 011038Z SEP 00
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FAILED ACTION PLANS OF THE 1950'S IN LATIN AMERICA SUCH AS INTEREST RATE CAPS, ILL-TARGETED TAX BREAKS AND THE LIKE." "THIS PLAN IS NOT GOING TO SOLVE ANY OF THE PROBLEMS," HE SUMMARIZED. "WHILE I HOPE TO HAVE GOOD NEWS TO SHARE WITH YOU ON SPTEMBER 12 (THE SCHEDULED DATE FOR THE TEAM'S OUBRIEFING TO THE DONOR COMMUNITY), IT DOES NOT LOK GOOD NOW." HE CONCLUDED, "I AM AFRAID OUR COMMNIQUE WILL NOT BE GOOD NEWS FOR THE COUNTRY".

COMMENT

15. (C) THE TEAM LEDER'S OBSERVATIONS AND CONCLUSIONS AFTER ONLY 48HOURS IN THE COUNTRY IS NOT, IN OUR OPINION, A POPITIOUS START TO THE REVIEW

OF ZIMBABWE. HIS HIHLIGHTED AREAS OF CONCERN MATCH
THOSE WE HAVE REORTED ON AND WHICH WE TRACK CLOSELY.
WITH THE IM COMING UP EMPTY-HANDED ON THE POLICY AND
PLANNIG FRONT, WE FEAR THAT THE DEPTH AND BREADTH OF
TE BAD NEWS COMING OUT OF THE AUDIT AND NUMBER-
CRNCHING WILL CONSTITUTE A DOUBLE DOSE OF
UNFAVOURBLE REVIEW RESULTS FOR ZIMBABWE. FOR THE
NEAR TRM, BLEAK IS LOOKING BLEAKER. END COMMENT.

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